

Message Text

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ACTION ARA-08

INFO OCT-01 SS-14 ISO-00 ARAE-00 NSC-05 NSCE-00 SP-02
L-01 H-01 PRS-01 INR-05 EB-04 CIAE-00 NSAE-00
SSO-00 INRE-00 IO-06 EA-06 /054 W
-----291552Z 026464 /53
O R 291549Z MAR 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC IMMEDIATE 2041
INFO AMEMBASSY BRASILIA

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 05123

LIMDIS

E.O. 11652: GDS
TAGS: EPAP, UNCTAD
SUBJECT: SUGAR --CONSULTATIONS WITH BRAZIL ON ISA

REF: (A) LONDON 4600; (B) THIGPEN/PILKAUSKAS TELCON

1. U.S. OBSERVER TO INTERNATIONAL SUGAR ORGANIZATION MET WITH MINISTER RAFFAELLI OF BRAZILIAN EMBASSY LATE MARCH 25 TO BEGIN BILATERAL CONSULTATION ON A NEW INTERNATIONAL SUGAR AGREEMENT (ISA), AS AGREED AT TIME OF CALL BY WASHINGTON BRAZILIAN EMBASSY OFFICIALS AT DEPARTMENT. CONSULTATION WAS AT BRAZILIAN EMBASSY AND AT RAFFAELLI'S INITIATIVE. RAFFAELLI READ FROM TWO CONFIDENTIAL CABLES, PROVIDING OUTLINE OF GOB POSITION AS SHOWN IN PARA 2, BELOW. HE EMPHASIZED BRAZIL NOT CONDUCTING SIMILAR CONSULTATIONS WITH OTHERS AND ASKED THAT WE PRESERVE CONFIDENTIALITY.

2. RAFAELLI'S OUTLINE OF BRAZIL'S THINKING, AS ANTICIPATED, WAS FOR A QUOTA-TYPE AGREEMENT. MOST SIGNIFICANT BREAK WITH PAST SEEMS TO BE SOME ATTEMPT TO MAKE COUNTRY QUOTAS MORE DYNAMIC IN LINE WITH EXPORT CAPABILITIES.
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DETAILS ARE:

A. BASIC EXPORT TONNAGES (BET) -- BRAZIL WOULD PREFER QUOTAS ON BASIS OF PERFORMANCE, BUT REALIZES MUST SETTLE FOR A LESS THAN PERFECT SYSTEM. THEY PLAN, THEREFORE, TO PROPOSE FOLLOWING FORMULA:

(L) BET SHOULD BE EXPRESSED IN PERCENT TERMS RATHER THAN ABSOLUTE TONNAGES, FOR LIFE OF AGREEMENT, AND BASED AS CLOSELY AS POSSIBLE ON REALISTIC CRITERIA.

(2) DURING FIRST TWO YEARS OF AGREEMENT' EXPORT-ING MEMBERS WOULD BE AWARDED QUOTAS PRO-RATA TO THEIR BETS, (I.E., THEY WOULD GET THEIR PERCENTAGE SHARE OF THE ANNUAL GLOBAL QUOTA).

(3) DURING THE THIRD YEAR OF THE AGREEMENT, A MORE COMPLEX FORMULA WOULD BE USED, WITH QUOTAS DETERMINED IN PART BY THE BET AND IN PART BY A WEIGHTED SYSTEM DESIGNED TO REWARD PRODUCTION AND EXPORT PERFORMANCE (SAY 70-30) AS FOLLOWS:

WEIGHT 3 -- EXPORTABLE PRODUCTION
WEIGHT 2 -- NET EXPORTS TO IMPORTING MEMBERS
WEIGHT 1 -- GLOBAL PRODUCTION (INCLUDING FOR DOMESTIC CONSUMPTION.

MINIMUM EXPORT ENTITLEMENTS WOULD BE REFLECTED IN BETS.

B. SHORTFALLS -- INDUCEMENT TO DECLARE FORMULA ALONG LINES OF THE INTERNATIONAL COFFEE AGREEMENT WOULD BE USED.

C. PRICE RANGE -- A RANGE CONSISTING OF THREE SECTORS IS ENVISIONED. RAFAELLI EMPHASIZED MINIMUM CONFIDENTIAL

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SHOULD NOT BE A "DISASTER PRICE" BUT SHOULD FULLY COVER PRODUCTION COSTS. QUOTAS SHOULD BE AT 100 PERCENT WITHIN MIDDLE SECTOR. A PRICE INCREASE INTO TOO SECTOR WOULD RESULT IN A 5 PERCENT QUOTA INCREASE. IF CEILING BROKEN, QUOTAS WOULD BE SUSPENDED AND ALL MINIMUM STOCKS RELEASED. IF PRICE REMAINED ABOVE CEILING FOR 15 MARKET DAYS, FREE IMPORTS FROM NON-MEMBERS WOULD BE ALLOWED. IN PRICE DECLINE SITUATION, WHEN PRICE ENTERS LOWER SECTOR, QUOTAS WOULD BE CUT 5 PERCENT AND IMPORTS FROM NON-MEMBERS WOULD BE PROHIBITED. IF PRICE DECLINED BELOW FLOOR, EVERY 10 MARKET DAYS PRICES WOULD BE CUT AN ADDITIONAL 5 PERCENT UNTIL TREND REVERSED. PRICE RANGES WOULD BE SUBJECT TO PERIODIC REVIEW.

D. STOCKS -- MINIMUM STOCKS WOULD BE SET AT 10 PERCENT OF INITIAL QUOTAS (OR 10 PERCENT OF BETS), PROBABLY WITH EXCEPTIONS MADE FOR VERY SMALL EXPORTERS. RAFFAELLI SAID BRAZIL HAD LOOKED CAREFULLY

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L-01 H-01 PRS-01 INR-05 EB-04 CIAE-00 NSAE-00
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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 05123

LIMDIS

AT QUESTION OF USING STOCKS MORE ACTIVELY TO DEFEND
BOTH FLOOR AND CEILING BUT HAD REJECTED IDEA.

E. ACCESS TO MARKET -- BRAZIL WANTS STRENGTHENED
PROVISIONS HERE; HOWEVER, RAFFAELLI SAID GOB HAD DECIDED
SUPPLY/PURCHASE COMMITMENT ARTICLES WERE UNWORKABLE.

F. NON-MEMBERS -- RAFFAELLI REFERRED TO ALTERNA-
TIVES TEXT (TO UNCTAD DOCUMENT) SUBMITTED BY BRAZIL ON
NOTING THAT BRAZIL FELT STRICT CONTROL WAS NEEDED.
HE MENTIONED IN PASSING HIS PERSONAL DOUBTS THAT EEC
WOULD JOIN, WHICH MAKES NON-MEMBER PROVISIONS EVEN MORE
IMPORTANT. RAFFAELLI WAS AWARE OF SPECIAL INTEREST OF
U.S. AND JAPAN IN TAIWAN TRADE, BUT MADE NO COMMENT.

3. U.S. OBSERVER, WHO SPOKE FIRST, EXPLAINED HE WAS UN-
ABLE TO PROVIDE DETAILS OF U.S. POSITION AT THAT TIME,
SO TALKED FROM REF A (RAFFAELLI WAS IN GENEVA DURING
KATZ VISIT). RAFFAELLI EXPRESSED PARTICULAR INTEREST
IN U.S. NOTION OF A "FREE ZONE" WITHIN THE PRICE RANGE.
HE NOTED IF THIS IMPLIED MASSIVE RELEASE OF STOCKS,
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EFFECT WOULD BE TO KEEP PRICES DEPRESSED AROUND MINIMUM.
USREP NOTED THIS OF COURSE WAS NOT U.S. INTENT, BUT
IDEA DISCUSSED AT WORKING LEVEL, WAS HOW STOCKS COULD
BE USED EFFECTIVELY IN CONCERT WITH QUOTAS TO
DEFEND BOTH FLOOR AND CEILING.

4. SECOND CONSULTATION WILL BE HELD MARCH 29.

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